SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Burton | Analyst: Roger Lackey | Bill Number: SB 1726

Related Bills: See Prior Analysis | Telephone: 845-3627 | Amended Date: 05-31-2000

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Zero-Emission Vehicle Credit

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 23, 2000.

X FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO _____________________.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 23, 2000, STILL APPLIES.

_____ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would provide a credit equal to 50% of the amount paid or incurred to lease or purchase a new zero-emission vehicle (ZEV). The credit would be limited to $3,000 per vehicle annually.

This bill also would allow a lessor or seller a credit for each new zero-emission vehicle leased or sold to a local or state government agency or to a tax-exempt nonprofit organization. The credit would be equal to either 50% of the total lease payments for a maximum of 36 months or 50% of the sales price for a maximum period of three years. The same $3,000 per vehicle annual credit limitation would apply.

SUMMARY OF AMENDMENT

The May 31, 2000, amendments added the credit for lessors and sellers as described above. For a lessor or seller to be eligible for the credit, the lessor or seller would be required to reduce the lease or purchase price of these vehicles by the amount of the credit and would be required to provide written documentation of that reduction. The credit would apply only to vehicles with an original lease or purchase date beginning between January 1, 2001, and December 31, 2002.

The amendments deleted language that would have allowed a lessee to make an irrevocable election to allow the lessor of the vehicle to claim the credit.

The amendments also amended the definition of "zero-emission vehicle" both to require that the vehicle be registered in the State of California and to allow previously leased vehicles that have been substantially upgraded with certain new technologies to qualify for the credit.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP		
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Finally, the amendments technically corrected the repeal date by changing it from December 31, 2005, to December 1, 2006.

The amendments resolved several of the department's policy considerations. However, it did not resolve all of the considerations discussed in the department's analysis of the bill as introduced February 23, 2000. The amendment also raised additional policy considerations. As a result, the remaining and new policy, implementation and technical considerations have been included below.

The revenue estimate provided in the department's analysis of the bill as introduced February 23, 2000, still applies and is included below. Except for the discussion in this analysis, the department's analysis of the bill as introduced February 23, 2000, still applies.

Policy Considerations

The bill allows a credit on the "lease or purchase" payments made during the 36-month qualifying period, but does not specify what portion of those would qualify. For example, both lease and purchase payments ordinarily include an interest factor and also may include insurance, maintenance, repairs, and extended warranty payments. The bill should clarify which items included in the lease or purchase payments qualify for the credit.

The bill allows a maximum credit of $3,000 paid per vehicle per year. In the case of a lease, the credit is available for amounts paid for a maximum period of 36 months. In the case of the purchase of a vehicle, both the seller and buyer would be limited to $3,000 in the year of purchase since the "purchase" of a vehicle is a single event for income tax purposes, without regard to whether the purchase is with cash or via financing. Thus, to provide an equitable treatment for parties to both leases and purchases of zero-emission vehicles, the bill would need to be amended to clearly authorize the credit for three years in the case of a sale.

The bill allows a credit to the seller or lessor of a zero-emission vehicle sold or leased to a state or local government agency or a tax-exempt nonprofit organization. It does not provide similar treatment for zero-emission vehicles sold or leased to federal government agencies or instrumentalities. This may violate principles of intergovernmental immunity and laws that prohibit discrimination against the federal government.

Implementation Considerations

This bill does not limit the number of years for the carryover period. The department would be required to retain the carryover on the tax forms indefinitely because an unlimited credit carryover period is allowed. Recent credits have been enacted with a carryover period limitation since experience shows credits are typically used within eight years of being earned.

Technical Considerations

This bill proposes to add the Zero-Emission Vehicle Credit to Sections 17053.37 of the PITL and 23637 of the B&CTL; however, these sections are already used by the Credit for Joint Strike Fighter property.

Tax Revenue Estimate

The revenue estimate provided is based on the author’s intent to provide a purchaser or seller of a zero-emission vehicle a credit equal to the credit provided to a taxpayer that leases a zero-emission vehicle.

Based on the data and assumptions below, revenue losses are estimated as follows

Revenue Impact of SB 1726 For Original Lease or Purchase Beginning Between 1/1/01 and 12/31/02 Assumed Enactment After 6/30/2000 (In Millions)		
2000-1	2001-2	2002-3
Negligible Loss	-$3	-$7

?? Negligible Loss = Less Than $250,000

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Tax Revenue Discussion

The revenue impact of this bill would depend upon the number of taxpayers leasing or purchasing a new zero-emission vehicle, the lease or purchase cost of the vehicle, the number of vehicles purchased, the number of vehicles a lessee elects to allow the lessor to take the credit, and the average credit applied against tax liabilities.

These estimates reflect applied credits in the respective years and are based on the following data and assumptions:

?? The credit would be available on 50% of the amount paid or incurred during the taxable year to lease or purchase a new zero-emission vehicle.
?? The purchase or lease of qualified vehicles must be for use in California.
?? The number of zero-emission vehicles projected to be sold or leased is estimated to be approximately 1,000 for the year 2001 and 5,000 for 2002. These estimates were based on information from the Air Resources Board and a memorandum of agreement between the board and the major auto industries. By the year 2006, it is estimated that approximately 40,000 zero-emission vehicles will be produced for California by the major auto industries.
? Based on information from a study conducted by Southern California Edison, approximately 83% of zero-emission vehicles are leased and that government leases and sales represent 62% of the universe.
? The average credit for leased vehicles is estimated to be approximately $2,200 annually for 36 months. This is based on information obtained from the Internet regarding various lease programs and cost.

- ? The average credit for purchased vehicles is estimated to be approximately $2,400 per vehicle per year. This assumes an average vehicle payment of approximately $400 per month including principal and interest. It is assumed that the amount paid or incurred during the taxable/income year represents actual payments made for the purchase or lease of the vehicle and not the entire loan amount if financed.
- ? Assumed that 10% of vehicles purchased would not be financed. For these individuals the average credit is estimated to be $3,000 in the year of purchase.
- ? The 2000-01 fiscal year loss represents approximately 10% of the loss attributable to the 2001 taxable/income year. This adjustment assumes some taxpayers would revise estimate payments to allow for the credit and takes into consideration both fiscal and calendar year filers.

In summary, for the first full year of the credit, it is projected that approximately 385 zero-emission vehicles would qualify taxpayers for the credit. The average applied credit is estimated to be approximately $2,200.

This estimate assumes that the bill will be amended to clarify that the credit is authorized for three years in the case of vehicle purchases which are financed over multiple years.

BOARD POSITION

Pending.